A Report on
Missouri's Economic Condition

July 2005

MISSOURI ECONOMIC RESEARCH & INFORMATION CENTER
DEPARTMENT of ECONOMIC DEVELOPMENT

A Report on Missouri's Economic Condition

Although overall economic activity has been expanding since the end of the recession in late 2001, it was not until 2003 that sustained rapid growth became established. Even then, the economic growth shown by Gross Domestic Product (GDP) and other major economic data was not as evident in the nation's labor markets, which strongly influence perceptions of overall economic conditions.

By 2004, labor markets began to improve as U.S. payroll employment grew and unemployment (which had never become high by historical standards) began to diminish. In Missouri, employment leveled off some in the 2nd half of 2004, with continuing problems in the telecommunications and air transportation industries plus the effect of government fiscal difficulties taking a toll.

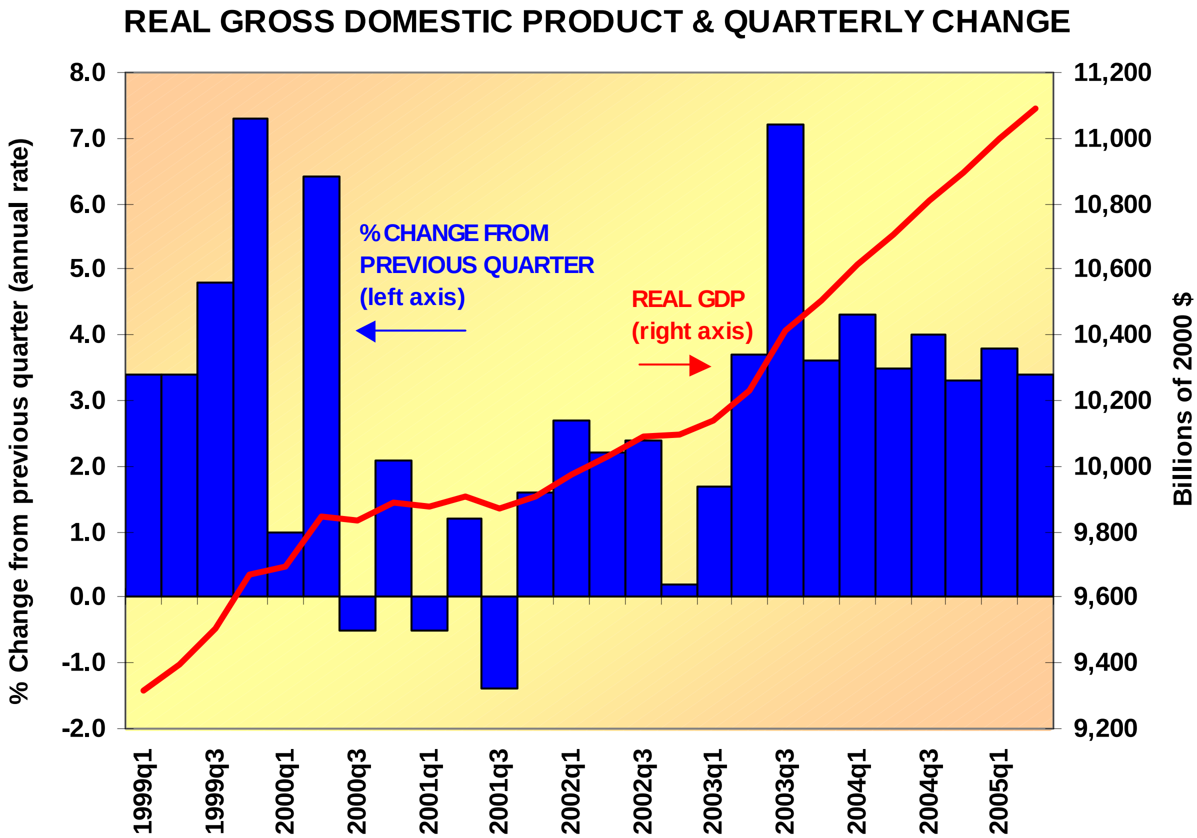
Following January 2005, when wintry weather and a temporary automobile assembly layoff caused some employment drops, Missouri employment began to climb. Through June, employment has grown strongly in the state, more strongly in fact than in all but six western states. The state's unemployment rate, which peaked in January, has decreased and is now at its lowest level since early 2003.

Missouri's economy has so far weathered high petroleum prices, with travel and tourism appearing to have a strong summer. The state's automobile industry has avoided major cutbacks going into the summer, even though its product mix is geared toward SUVs, pickups, and minivans. Substantial incentives by the automakers, including the "employee pricing" promotions now offered by all of the Big Three, have buoyed up sales in recent months.

All in all, the first six months of 2005 have been a strong economic period in Missouri.

Gross Domestic Product

Gross Domestic Product (GDP) is the broadest measure of economic conditions in the U.S. Output has been expanding since the recession ended in the 4th quarter of 2001. For several quarters after the economic trough, GDP growth remained fairly slow. Although the economy never relapsed into recession, neither did it immediately "take off".



Source: U.S. Bureau of Economic Analysis

Since the 2nd quarter of 2003, the economy has been growing fairly consistently at an annual rate of between 3 and 4 percent, in real terms. This is fairly strong by historical standards, denoting a generally robust economy. Even the high costs of energy have not significantly dampened overall economic activity.

There was a slight slowing of growth between the 1st and 2nd quarters of this year; 2nd quarter growth was 3.4 percent, compared to 3.8 in the 1st. Much of the decrease came from a reduction in private inventories, which subtracted 2.3 percentage points from GDP growth. At the same time, however, personal consumption expenditures grew at a 3.3 percent annual rate, while private fixed investment increased at a 9.3 percent rate. The reduction in inventories means that businesses will have to increase production in upcoming quarters to meet demand.

A good summary of recent conditions was provided by Federal Reserve Chairman Alan Greenspan in testimony before the Congress.

> *The data released over the past two months or so accord with the view that the earlier soft readings on the economy were not presaging a more serious slowdown in the pace of activity. Employment has remained on an upward trend, retail spending has posted appreciable gains, inventory levels are modest, and business investment appears to have firmed. At the same time, low long-term interest rates have continued to provide a lift to housing activity. Although both overall and core consumer price inflation have eased of late, the prices of oil and natural gas have moved up again on balance since May and are likely to place some upward pressure on consumer prices, at least over the near term. Slack in labor and product markets has continued to decline.*[1]

All in all, the data in the most recent several months represent the best economic picture since the economy started to slow in the latter half of 2000. A typical economic forecast expects the growth in the last half of this year to be similar to that in recent quarters: 3.8 and 3.7 percent in the year's final two quarters.[2]

Economic Indicators

Employment

Employment bottomed out in 2003, both in the U.S. and Missouri. National employment ran along this trough of just under 130 million jobs for about six months in the middle of the year, before beginning to grow in about September. Missouri employment remained flat longer, hovering around 2,680,000 jobs for about a year. Sustained growth didn't really begin until early 2004 in Missouri.

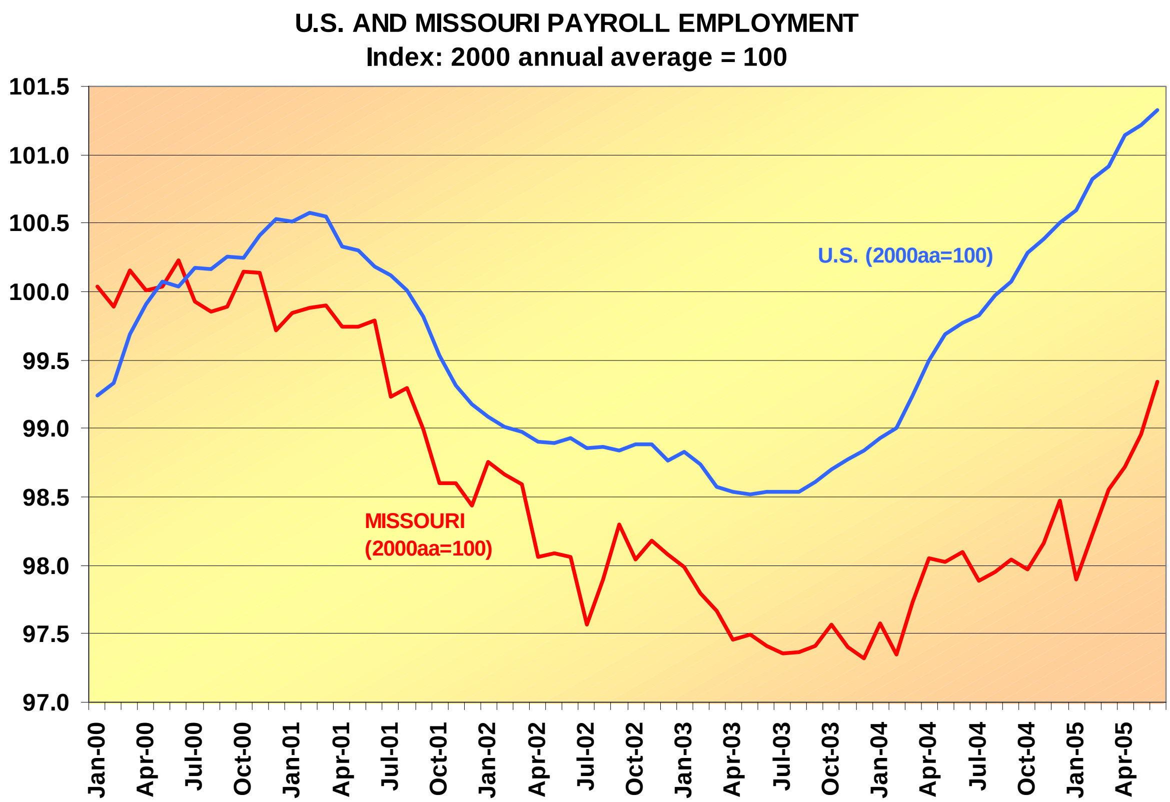
Since their respective troughs, U.S. payroll employment has increased by about 3.7 million jobs (2.9 percent), while Missouri employment grew by 55,700 (2.1 percent). Of course, the U.S. growth took place over 25 months while Missouri's expansion represents a period of 18 months. The annual rates of growth for each series are virtually identical, at just under 1.4 percent.

Missouri employment growth during 2004 was somewhat irregular. It was not until 2005 that Missouri employment really began to show strong growth. Employment actually dipped a bit in January, on a seasonally adjusted basis. Wintry weather during the reference week took a toll, particularly on construction, and a temporary layoff in the automobile industry led to a dip in manufacturing. Since January, employment growth has been very strong. About 39,700 jobs have been added to the state's economy, on a seasonally adjusted basis, representing an annual

[1] Federal Reserve Board Chairman Alan Greenspan, "Monetary Policy Report to the Congress," testimony before the U.S. House of Representatives Committee on Financial Services, July 20, 2005.

[2] Economy.com, "U.S. Macro Outlook," July 4, 2005.

growth rate of about 3.5 percent. All the major industry groups expanded during that period, except for the group of “other services” and government. Private sector industry employment increased by 42,800 between January and June. The most rapid growth occurred in leisure and hospitality; travel and tourism appear to be particularly strong this summer, despite high fuel prices and rising airline fares. Construction, professional and business services, and educational and health services also have shown strong growth.



Source: MERIC and U.S. Bureau of Labor Statistics

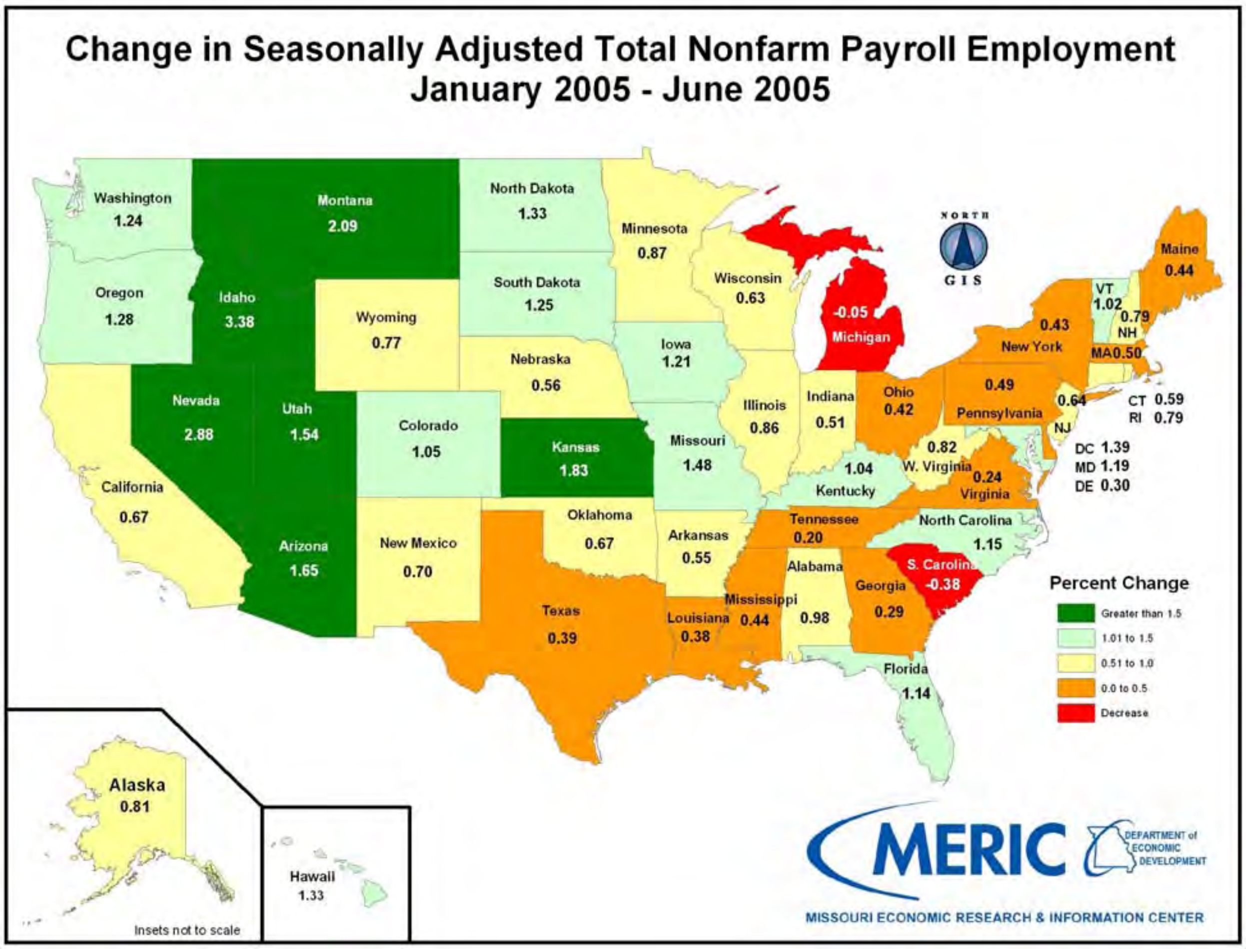
Index Numbers

Index numbers are used to indicate relative change, particularly over time. They are especially useful when comparing values where the magnitudes are significantly different. Many measures for Missouri are roughly 1/50 the size of the corresponding national measure. As an example, showing Missouri and national population change on the same chart would not be very useful, since the Missouri line would appear to be almost flat near the horizontal axis while the national line would show more change. To better compare, a base level for each variable is arbitrarily set at 100, and values are represented as a percentage of that base value.

The previous chart shows Missouri and U.S. nonfarm payroll employment data converted to index numbers, where the annual average value of each in the year 2000 is expressed as 100. (Index numbers for each observation are calculated by dividing their actual value by the 2000 annual average and multiplying by 100.)

Comparing Missouri's employment changes to other states continues to be a valuable way to analyze our state's economic condition. There has been considerable variation in how states were affected by the recession and different shocks to the economy. Similarly, there has been considerable variation among states in how soon they were able to resume employment growth and how strong that growth was.

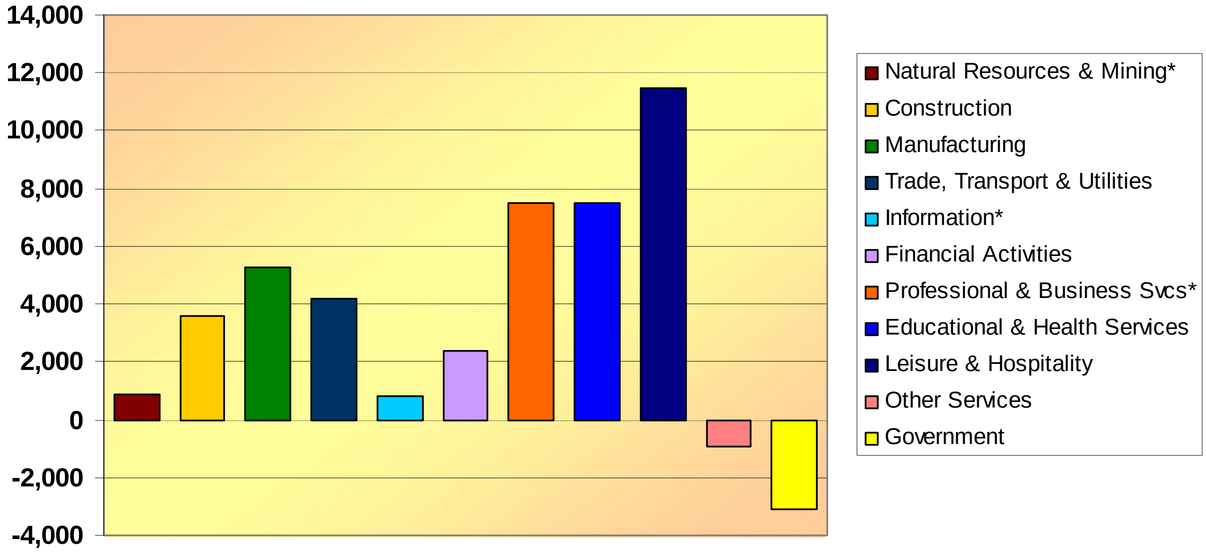
Since January 2005, Missouri's total nonfarm employment has increased by 39,700 jobs, or 1.5 percent. Missouri's acceleration in growth during 2005 has pulled it up in comparison to the other states. Only six states, all western, have experienced more rapid payroll employment than Missouri in the first half of the year. Among Missouri's neighbors, only Kansas has done as well or better.



Source: U.S. Bureau of Labor Statistics

Most industries in Missouri have experienced employment growth in the past year. The improvement has been stronger in the January-June period. The most rapid growth has occurred in leisure and hospitality, professional and business services, and education and health services. The major exception was in government, where cutbacks in state government have pulled down the group. The group of "other services', which includes religious, grantmaking, and various personal and repair service activities, was down slightly.

Missouri Employment Change by Sector
January 2005 - June 2005



**Data in these sectors not seasonally adjusted.* *Source: MERIC and U.S. Bureau of Labor Statistics*

Unemployment

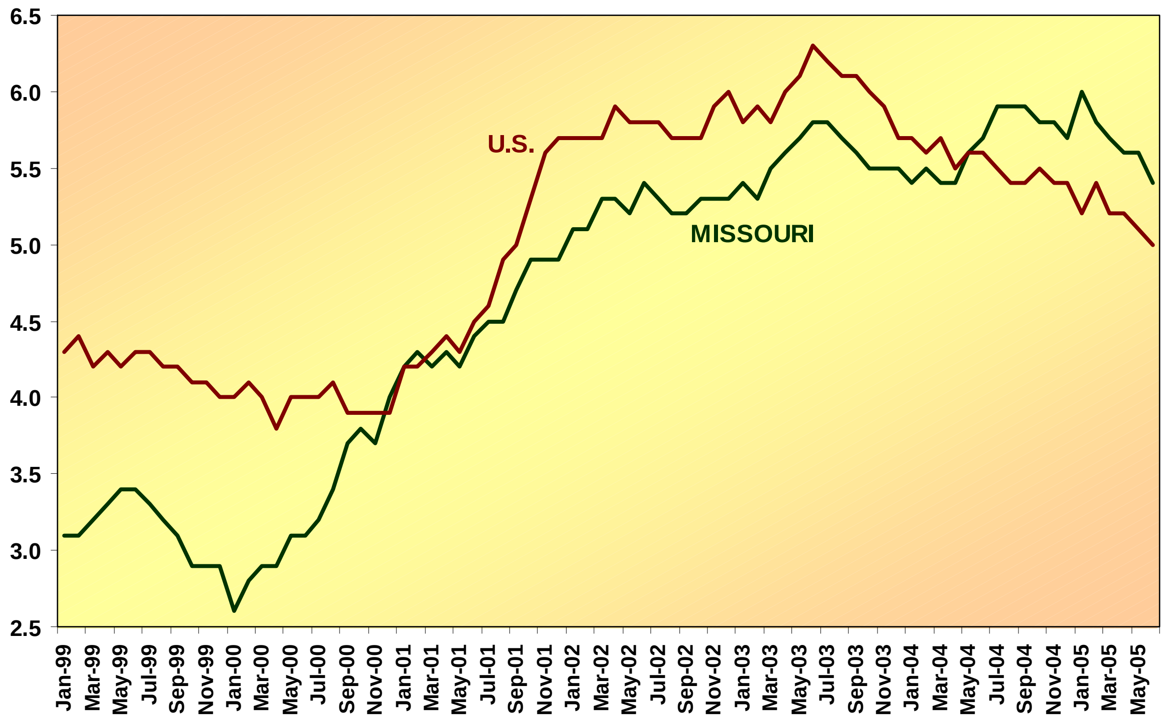
Historically, Missouri unemployment has been lower than national unemployment. The situation in this decade has been a little different. Missouri unemployment began to rise during 2000. The official beginning of recession was still a year away, but the economy had already started to slow. Employment had leveled off, and the manufacturing sector had been headed downward since mid-1998. The state's unemployment rate caught up with the national rate by the end of the year, and the two moved in tandem during the early phases of the recession. After the terrorist attacks of 9/11, national unemployment increased sharply and continued to be about half a point higher than Missouri's for about two years.

Rates peaked in mid-2003 and began to fall thereafter. The national rate has decreased fairly consistently, falling by 1.3 percentage points over the two years ending in June 2005. Missouri's rate fell from 5.8 percent at its peak in mid-2003 to 5.4 percent in early 2004 but began to increase again by the middle of 2004. The labor force was growing during this period, possibly as a result of people who had left or not entered the labor force during the recession and its

aftermath initiating new job searches, but employment was growing only slowly. Unemployment edged up as a result of this disparity.

In January 2005, Missouri's jobless rate peaked at 6.0 percent. Labor market conditions were weak in that month, with the combination of a temporary layoff in the automobile industry and weather-induced cutbacks in construction and other industries contributing to an increase in unemployment that was the reverse side of the drops being felt in employment. With the strong employment picture since January, unemployment has been decreasing, dropping to 5.4 percent in June. This is three-tenths of a point below the year-earlier rate and as low as unemployment has been in the state since early 2003.

U.S. AND MISSOURI UNEMPLOYMENT RATE, SEASONALLY ADJUSTED

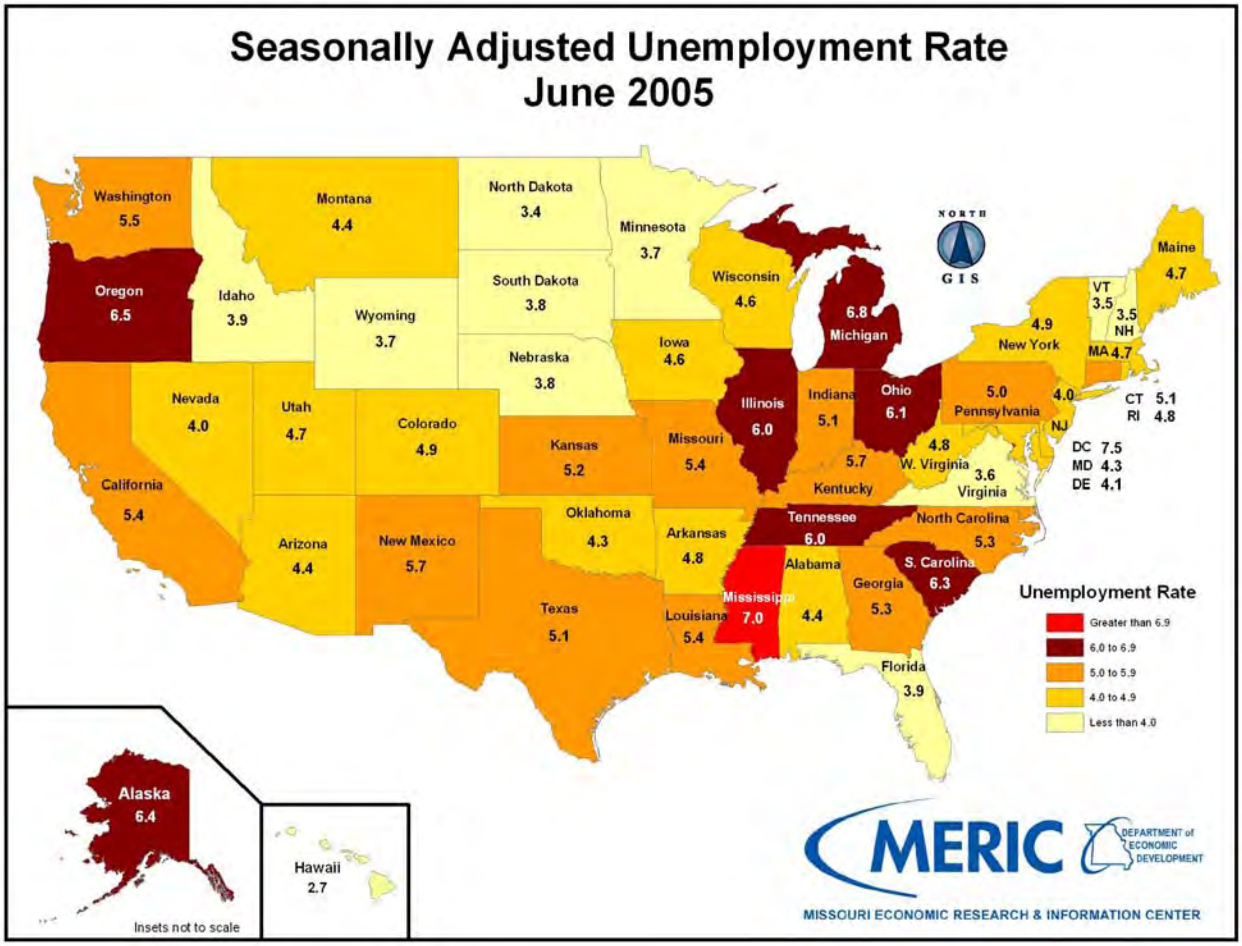


Source: U.S. Bureau of Labor Statistics

Unemployment Rate

The unemployment rate is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

Labor force and unemployment estimates for states come from a cooperative statistical program between the U.S. Department of Labor's Bureau of Labor Statistics (BLS) and the various states. (MERIC is the BLS affiliate in Missouri.) State data are developed using statistical models. The inputs to these models include monthly state-specific data from the Current Population Survey (CPS – a nationwide survey of households), Current Employment Statistics program (CES – survey of employers), and claims data from the unemployment insurance system.



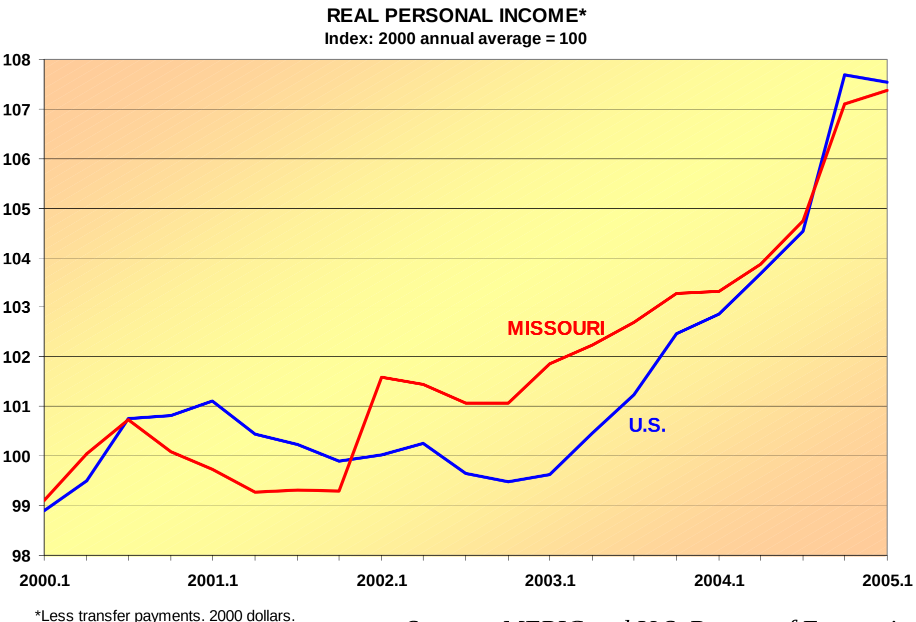
Source: U.S. Bureau of Labor Statistics

Personal Income

Personal income is a broad measure of economic activity and one for which relatively current data are available, especially at the national level.

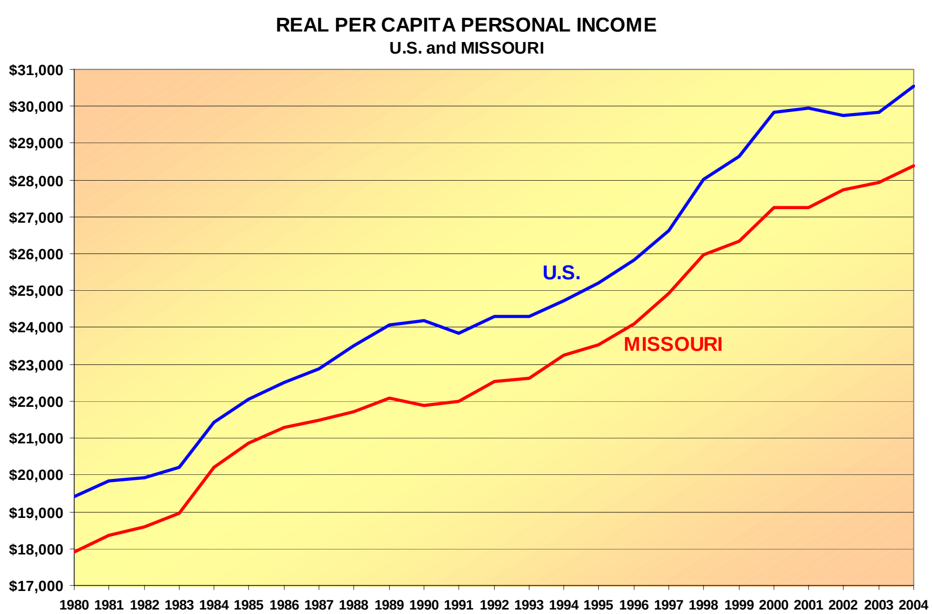
Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments. It is a measure of income that is available for spending and is seen as an indicator of the economic well-being of the residents of a state. Earnings and wages make up the largest portion of personal income.

To show the vastly different levels of total personal income for the U.S. and Missouri on the same chart, these data have been converted to index numbers.



Source: MERIC and U.S. Bureau of Economic Analysis

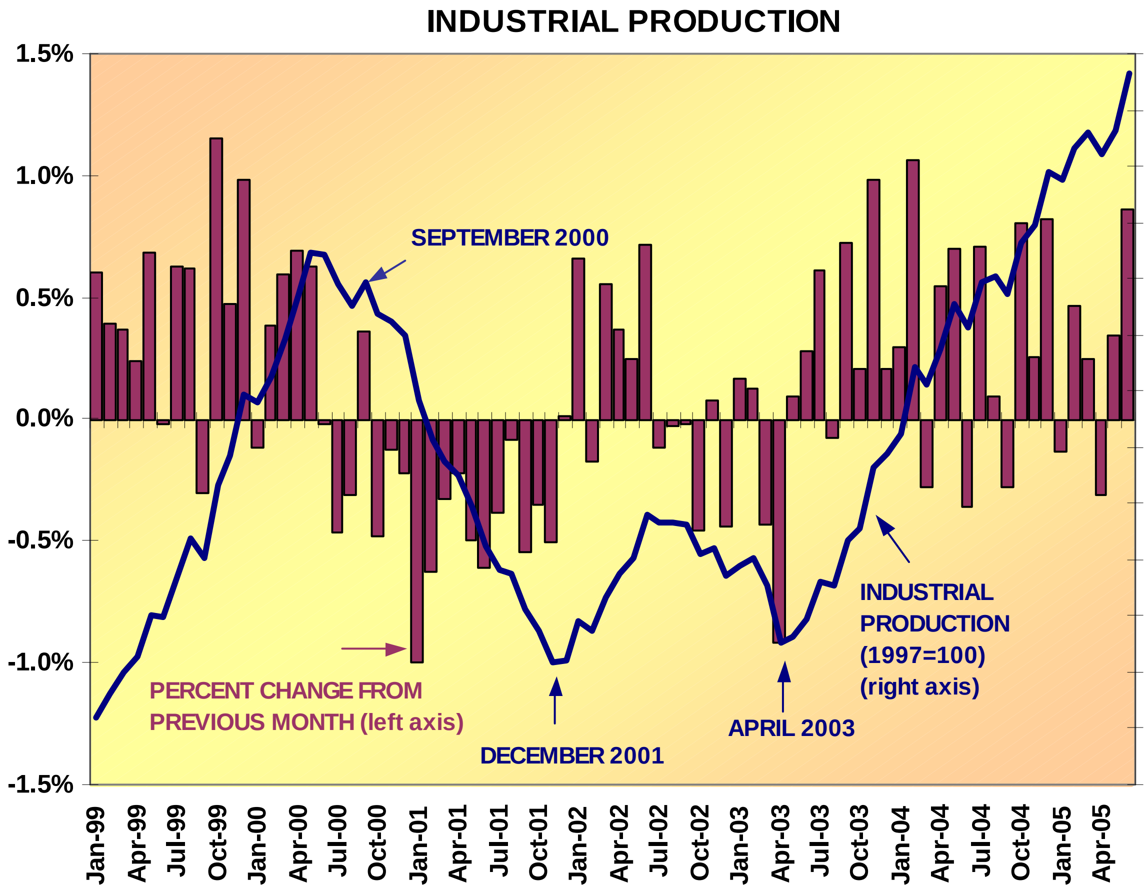
The above chart shows a comparison of Missouri and U.S. growth in real personal income (less transfer payments). The year 2000 has been selected as the base year. In Missouri, real personal income decreased during a period of a year or more, beginning in mid-2000, again showing that the economic downturn in the state actually started before the national recession began in early 2001. Personal income in Missouri resumed growth sooner than in the U.S., with a strong recovery occurring in the first quarter of 2002. It was at least a year later before national personal income experienced the same kind of growth. Despite the somewhat different timing, the magnitudes of growth in Missouri and the U.S. have been very similar. The levels of real personal income in the latest quarter (1st quarter of 2005) are about 7.5 percent higher than the average of 2000 in each area.



Source: MERIC and U.S. Bureau of Economic Analysis

Manufacturing & Industrial Vitality

Industrial production in the U.S. is a measure closely linked to the manufacturing sector. Industrial production began to drop after September 2000 and fell continuously for more than a year before bottoming out in December 2001.



Source: Federal Reserve Board

Gains occurred during the first half of 2002, as the economy seemed to be resuming growth. This situation did not last, however, as production began to slip again, continuing downward for about a year. As a whole, industrial production has been growing since April 2003. The current level is now about 2.8 percent higher than the previous peak reached in the middle of 2000.

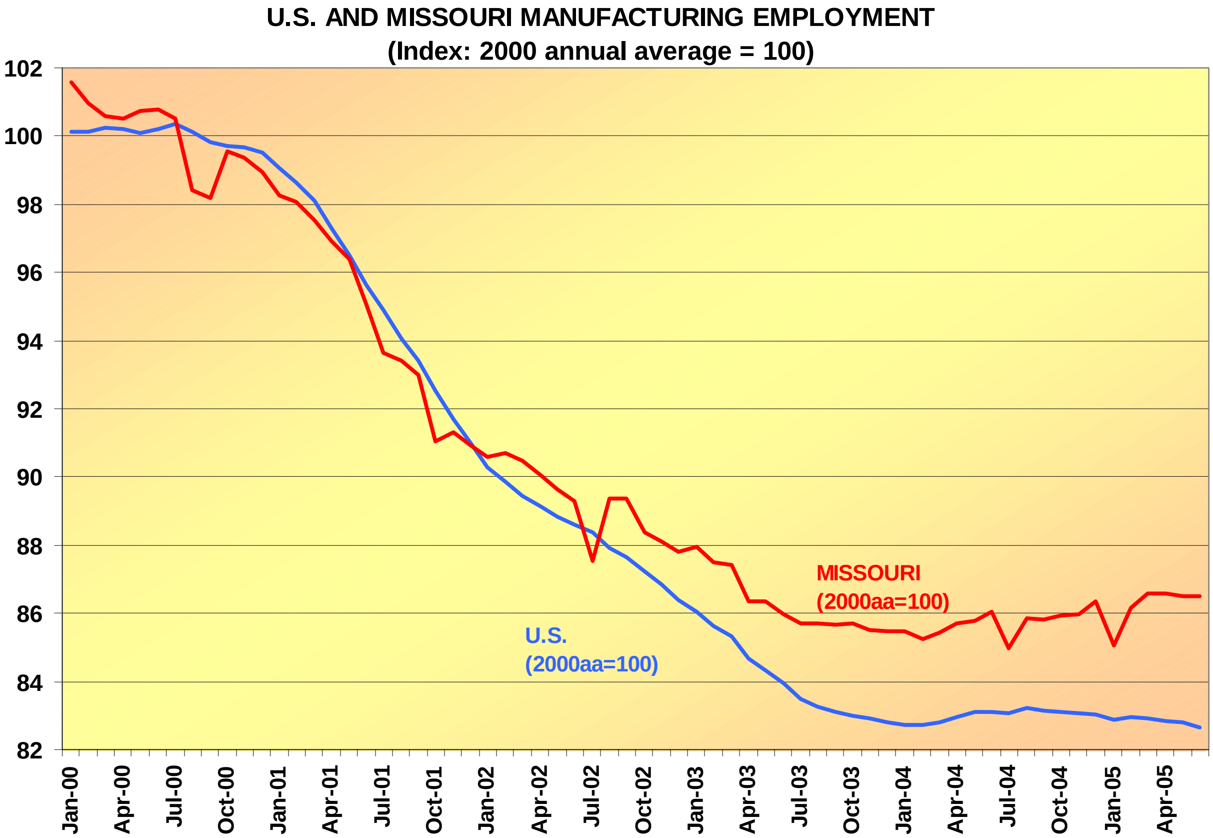
Manufacturing employment should move somewhat consistently with industrial production, although there could be some lag between increased production and rising employment. In particular, productivity gains have made it possible for manufacturers to increase output while holding employment constant or even shedding jobs.

The behavior of manufacturing employment over the past six years or so can be grouped into three time periods. Employment peaked in mid-1998, nearly three years before the beginning of recession. This was a troublesome sign for the economy, leading to slower economic and employment growth, which gradually affected other sectors. Employment then edged down until

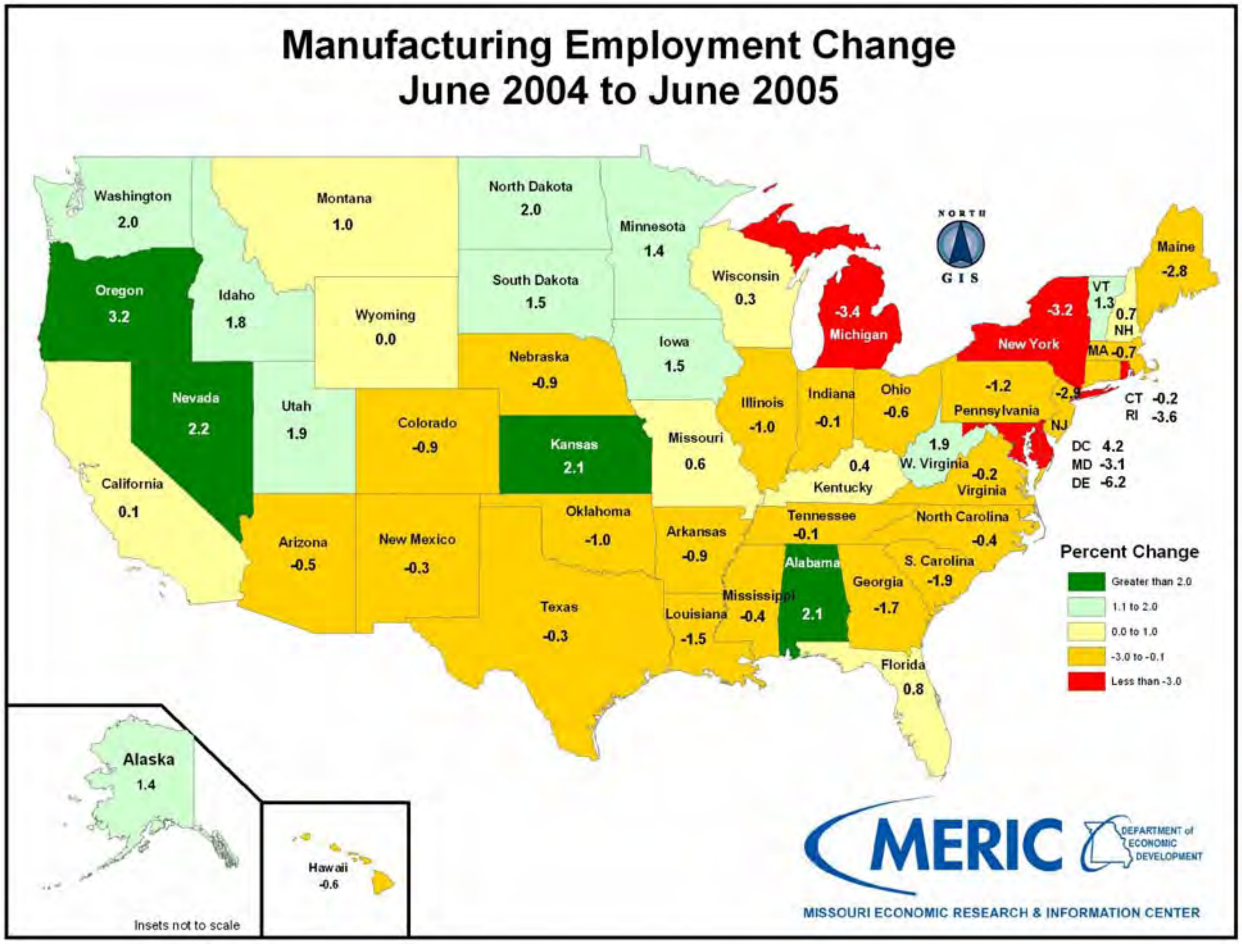
early 2001, which characterized the first period. The second period was marked by sharply falling employment and lasted from early 2001 through mid-2003. This was the period of the recession and its aftermath. Plummeting manufacturing employment contributed to the recession and held down growth following the official end of the recession.

In mid-2003, the manufacturing sector began to stabilize. Employment decreases began to slow at the national level, with some growth resuming in early 2004. This was relatively short-lived as manufacturing employment in the U.S. began to edge back down, reaching 14,270,000 jobs in June 2005. Continuing the long-term downward trend, this is the lowest level for U.S. manufacturing employment since 1950.

Missouri manufacturing has been bucking this trend, actually adding jobs over the past year and a half. In each of the past four months, there were more than 315,000 manufacturing jobs in the state which is the highest employment has been since early 2003. In June 2005, manufacturing employment was more than 5,000 jobs above the level of January 2005. Over the past year, notable growth has occurred in machinery manufacturing (1,400 jobs) and in aerospace (1,000 jobs).



Source: MERIC and U.S. Bureau of Labor Statistics

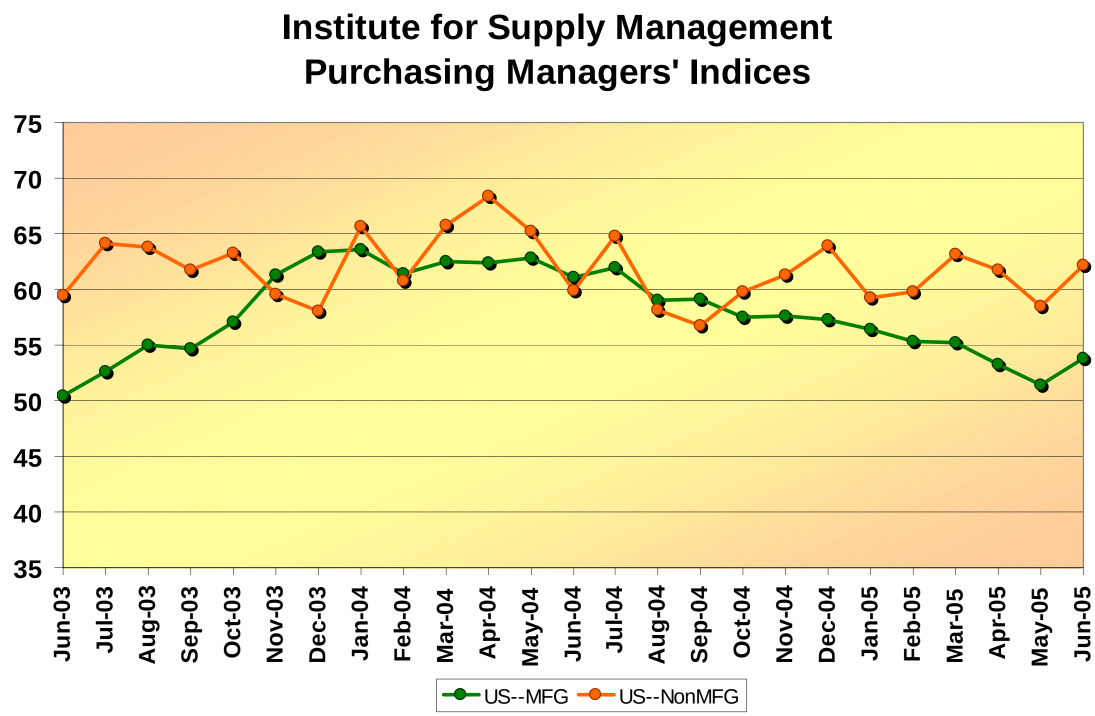


Source: U.S. Bureau of Labor Statistics

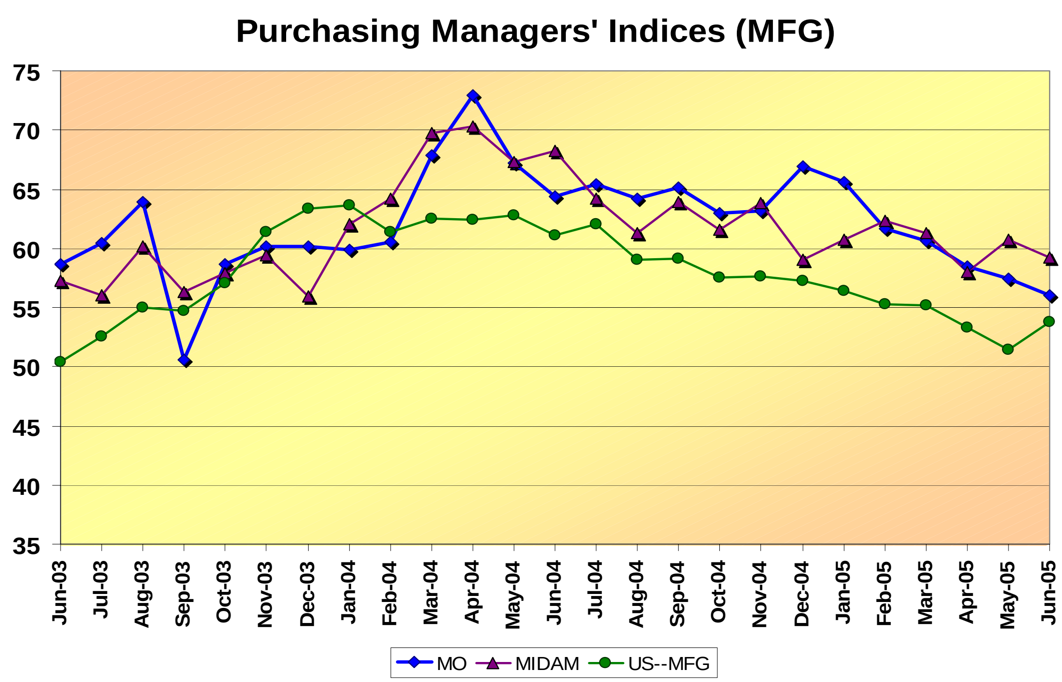
Purchasing Managers' Index

Missouri's Purchasing Managers' Index (PMI) declined in June. The state's PMI score fell to 56.0 from 57.4 in May according to the monthly *Mid-American Business Conditions Survey*, conducted by Creighton University, Omaha, NE. Despite June's decline, Missouri's score has remained above the critical 50 mark for 41 consecutive months, indicating continued expansion in the state, but at a slightly slower rate.

Economists consider the index, which measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, a key economic indicator. Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.



The national PMI for manufacturing industries increased in June, improving to 53.8 from 51.4 in May. Gains in new orders, production and employment boosted the index. The nation's PMI for non-manufacturing industries also increased in June, up 3.7 points to 62.2. This increase in the U.S. services index was above expectations for the month and more than reversed May's decline. Positive scores in both indices points toward growth in the U.S. economy.



Source: Institute for Supply Management and Creighton University

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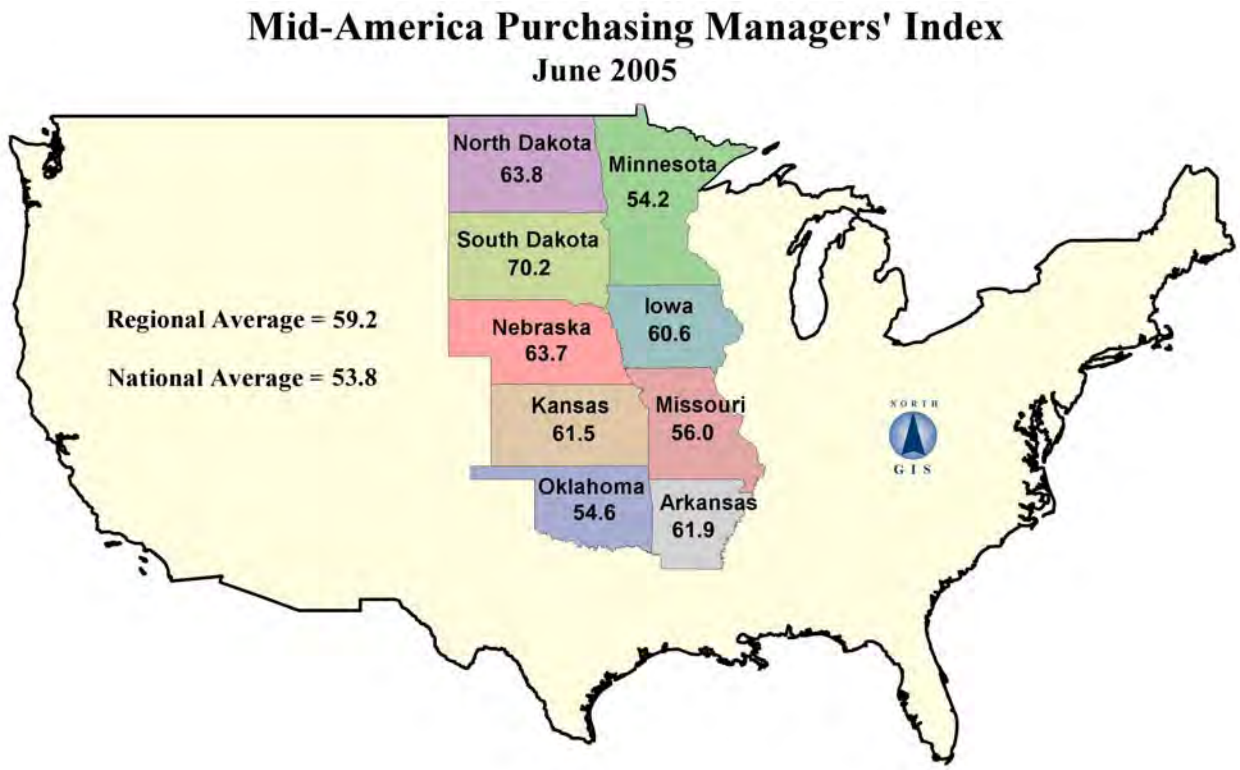
Missouri's June score showed expansion for the 41st straight month, with healthy scores in production (59.7), employment (55.5) and new orders (55.0).

Other states in the survey include South Dakota (70.2), North Dakota (63.8), Nebraska (63.7), Arkansas (61.9), Kansas (61.5), Iowa (60.6), Oklahoma (54.6), and Minnesota (54.2).

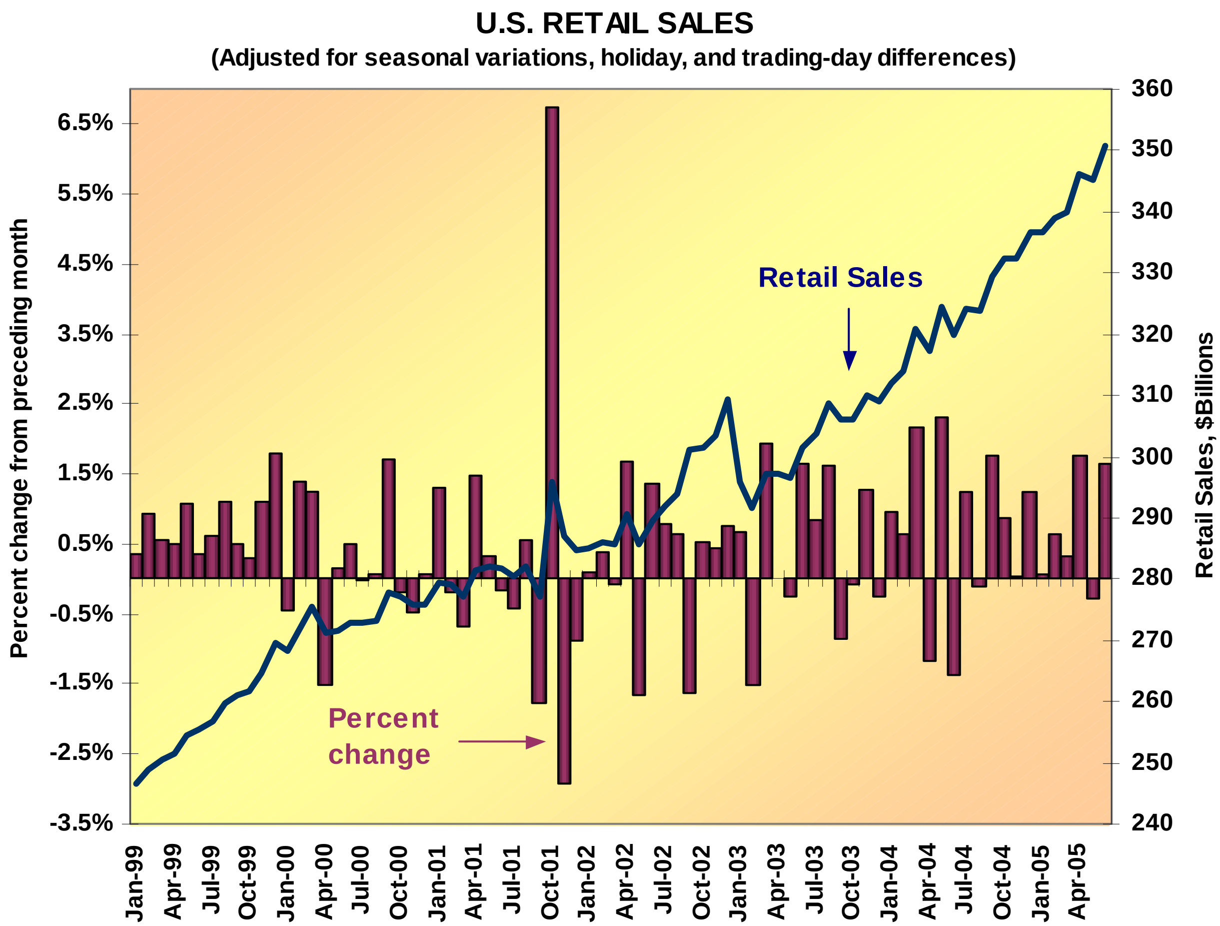
Overall, the average for the Mid-America Region decreased to 59.2 in June from 60.7 in May.



Source: Creighton University, Mid-American Business Conditions Survey

Retail Trade and Taxable Sales

There have been considerable swings in retail trade since the end of the recession, with weather, varying automobile sales and fluctuating gasoline prices contributing to these swings. Beginning in early 2003, retail sales began to move consistently upward and there have been no back-to-back decreases in retail trade since late 2003. During 2005, monthly retail sales growth has been largely positive, with the only exception occuring in May, which was affected by several seasonal factors.



Source: U.S. Census Bureau

Special circumstances that boosted retail sales during 2003 and 2004, such as tax rebates and cash from residential refinancing, have ended. Supports for retail sales in 2005 have primarily been labor market expansion and corresponding wage and salary growth. However, recent high energy costs may hinder retail sales growth by reducing the spending power of consumers. Rising interest rates may also affect retail sales as consumers will be less willing to borrow in order to spend. Going forward, it is expected that with falling energy prices and growing employment, retail sales will continue to grow, but at a slightly slower rate.

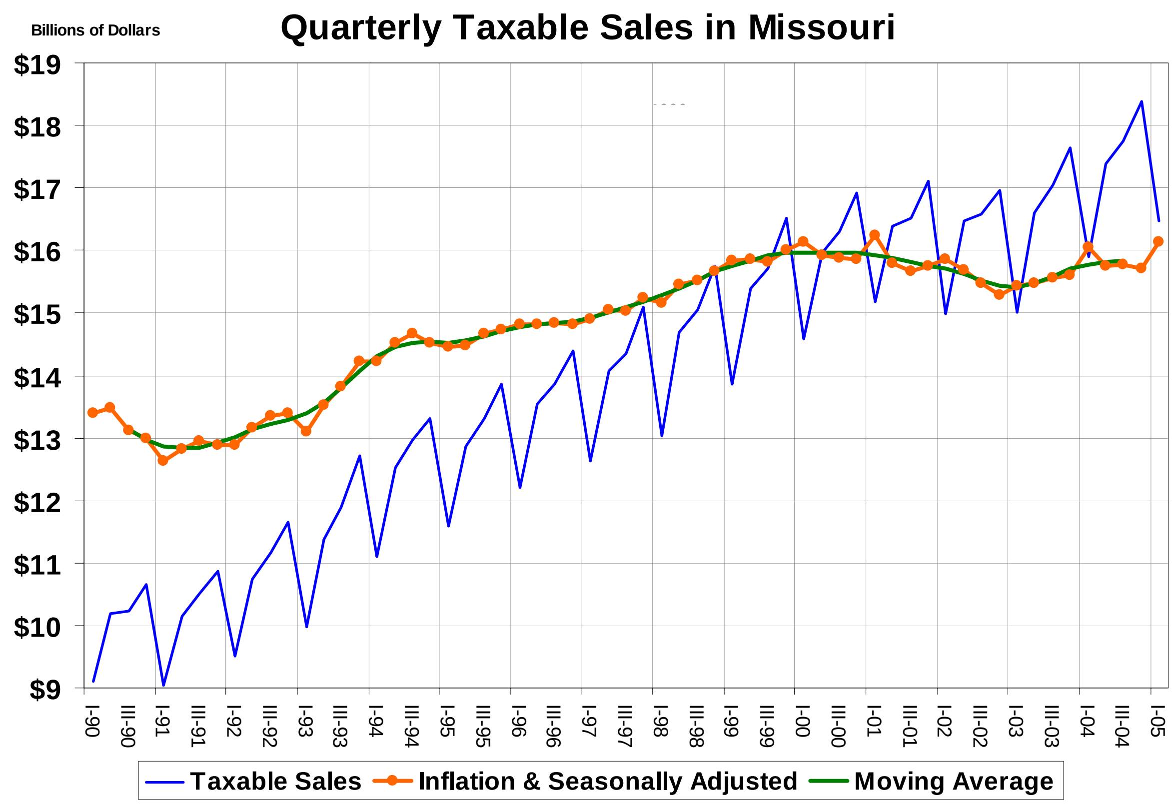
While no specific retail sales data are readily available for Missouri, total taxable sales as measured by the Missouri Department of Revenue (DOR) can serve as a proxy measure. Retail sales account for approximately 70% of taxable sales in Missouri, with an additional 10% from wholesale trade, 10% from service industries such as hotels and amusement parks, 5% from communications industries, and 5% from other industries.

The Missouri Department of Revenue (DOR) recently released preliminary taxable sales estimates for the 1st quarter of 2005. Over this period, $16.5 billion in taxable sales occurred in the state, an increase of 3.6% in actual dollars from the same quarter of 2004.

Quarterly Taxable Sales in Missouri				
	Taxable Sales ($B)	% Change from Year Ago	Inflation & Seasonally Adjusted ($B-00)	% Change from Year Ago (Adjusted)
1Q99	13.9	6.24%	15.8	4.50%
2Q99	15.4	4.83%	15.9	2.66%
3Q99	15.7	4.39%	15.8	2.00%
4Q99	16.5	4.84%	16.0	2.16%
1Q00	14.6	5.21%	16.1	1.91%
2Q00	16.0	3.68%	15.9	0.34%
3Q00	16.3	3.87%	15.9	0.35%
4Q00	16.9	2.49%	15.9	**-0.91%**
1Q01	15.2	4.13%	16.2	0.71%
2Q01	16.4	2.68%	15.8	**-0.67%**
3Q01	16.5	1.32%	15.7	**-1.34%**
4Q01	17.1	1.18%	15.7	**-0.68%**
1Q02	15.0	**-1.19%**	15.9	**-2.41%**
2Q02	16.5	0.53%	15.7	**-0.74%**
3Q02	16.6	0.34%	15.5	**-1.23%**
4Q02	17.0	**-0.86%**	15.3	**-2.99%**
1Q03	15.0	0.06%	15.4	**-2.73%**
2Q03	16.6	0.75%	15.5	**-1.39%**
3Q03	17.0	2.78%	15.6	0.55%
4Q03	17.6	3.99%	15.6	2.07%
1Q04	15.9	5.93%	16.1	4.07%
2Q04	17.4	4.71%	15.8	1.81%
3Q04	17.7	4.14%	15.8	1.40%
4Q04	18.4	4.16%	15.7	0.81%
1Q05	16.5	3.63%	16.1	0.57%

Note: Taxable sales estimates are now adjusted to year 2000 dollars.

Analysis by MERIC shows that if seasonal and inflationary effects are removed from the data, real year-to-year growth in taxable sales during the 1st quarter of 2005 was 0.57%. This is a slower rate of increase than in previous quarters, but remains positive. The state has experienced year-over-year growth in taxable sales for the last seven consecutive quarters.


Quarterly Taxable Sales in Missouri
Billions of Dollars
$19
$18
$17
$16
$15
$14
$13
$12
$11
$10
$9
I-90
III-90
I-91
III-91
I-92
III-92
I-93
III-93
I-94
III-94
I-95
III-95
I-96
III-96
I-97
III-97
I-98
III-98
I-99
III-99
I-00
III-00
I-01
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I-02
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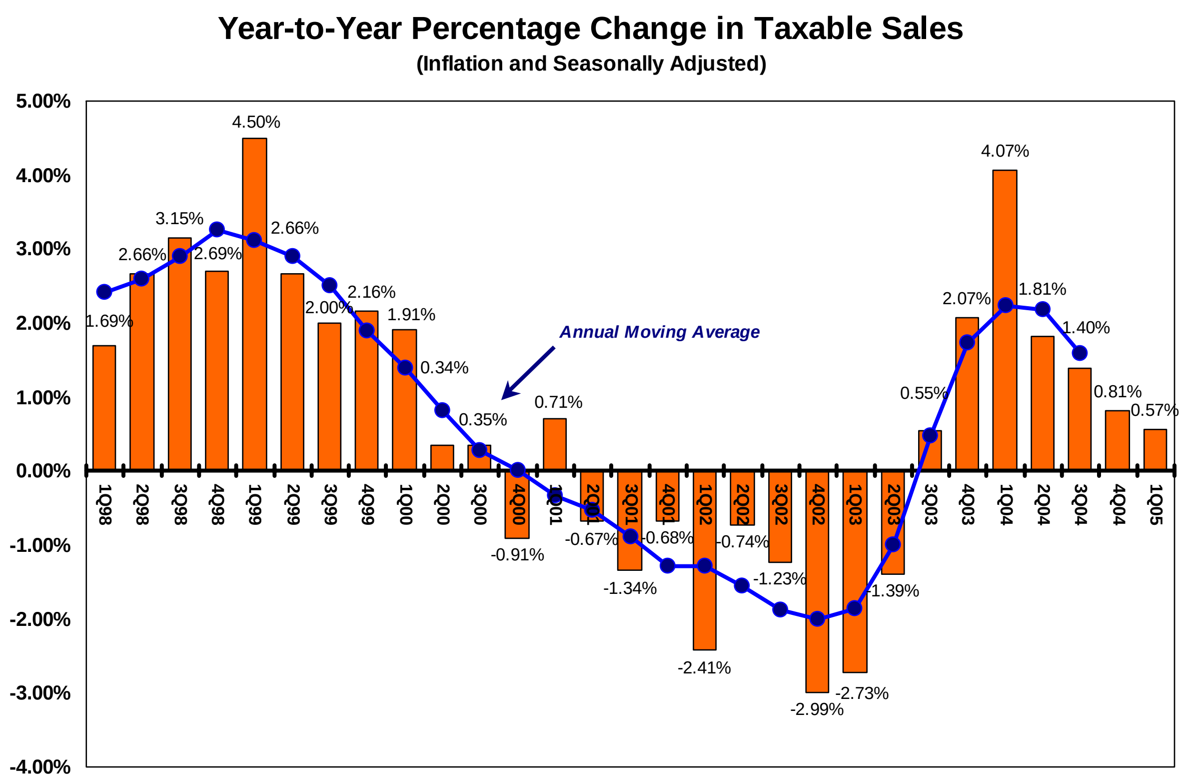
I-05
Taxable Sales
Inflation & Seasonally Adjusted
Moving Average


Year-to-Year Percentage Change in Taxable Sales
(Inflation and Seasonally Adjusted)
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
-1.00%
-2.00%
-3.00%
-4.00%
Annual Moving Average
1.69%
2.66%
3.15%
2.69%
4.50%
2.66%
2.00%
2.16%
1.91%
0.34%
0.35%
-0.91%
0.71%
-0.67%
-1.34%
-0.68%
-2.41%
-0.74%
-1.23%
-2.99%
-2.73%
-1.39%
0.55%
2.07%
4.07%
1.81%
1.40%
0.81%
0.57%
1Q98
2Q98
3Q98
4Q98
1Q99
2Q99
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2Q04
3Q04
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1Q05

Conclusions

The improvement in labor markets that was seen as the missing piece in the earlier stages of economy recovery now seems to be in place.

After some slowdown in the latter half of 2004, Missouri's payroll employment has grown strongly in the opening months of 2005. Unemployment has fallen, and the state's unemployment rate is now as low as it has been since early 2003.

So far, the economy has weathered the unusually high petroleum prices that impact almost all sectors of the economy, especially airline and automobile industries. Leisure and hospitality employment has grown, as travel and tourism appears to be having a strong summer. Missouri's motor vehicle industry has not yet seen any major cutbacks. This sector and its supplier industries remain a concern, however. The substantial incentives offered by the Big Three automakers may be "borrowing" sales from the future. Missouri's assembly plants produce larger vehicles, making them more vulnerable to fuel-cost issues.

At the present time, however, economic conditions in Missouri are much improved and the expectations remain for continued growth in the coming months.

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